

Message Text

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PAGE 01 BUENOS 04022 141220Z

47

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 /078 W

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R 131020Z JUN 75

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 1505

C O N F I D E N T I A L BUENOS AIRES 4022

E.O. 11652: GDS

TAGS: EGEN, PINT, AR

SUBJ: NEW ECONOMIC POLICY - A PRELIMINARY ASSESSMENT

REF: BA 3860

SUMMARY: CELESTINO RODRIGO AND NEW ECONOMIC TEAM HAVE INITIATED POLICY OF SHOCK TREATMENT TO ECONOMY. BELIEVE CURRENT GOA STRATEGY IS TO LIBERALIZE ECONOMY AS MUCH AS POSSIBLE INTRODUCING GREATER FLEXIBILITY IN MAJOR ECONOMIC VARIABLES (PRICES, WAGES, EXCHANGE RATES). THIS PHILOSOPHY REPRESENTS 180 DEGREE TURN FROM CAUTIOUS CONTROL POLICY FOLLOWED BY PREVIOUS ECONMIN ALFREDO GOMEZ MORALES. BIG QUESTION MARK NOW IS HOW FAR LIBERALIZATION CAN BE PUSHED IN FACE OF GROWING PUBLIC CONCERN OVER INFLATION AND UGLY MOOD OF LABOR. NEW ECONOMIC MOVES APPEAR INTIMATELY RELATED TO LOPEZ REGA'S RISING POWER AND RELATED POLITICAL STRUGGLES. END SUMMARY.

1. CELESTINO RODRIGO AND NEW ECONOMIC TEAM HAVE INITIATED PROCESS OF "SHOCK" THERAPY TO ECONOMY WITH MAJOR DEVALUATION, MASSIVE PRICE INCREASES, ETC. BELIEVE OBJECTIVE IS TO LIBERALIZE ECONOMY AS MUCH AS POSSIBLE. ACCORDING CONTACTS, NEW MEASURES UNDER CONSIDERATION INCLUDE:

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PAGE 02 BUENOS 04022 141220Z

A) FREEING ALL PRICES EXCEPT SMALL GROUP OF CONSUMER ITEMS;

- B) INTRODUCTION OF SOME FORM "CRAWLING PEG" EXCHANGE RATE;
- C) GROWING USE OF COST OF LIVING "INDEXATION."
- D) SUBSTANTIAL MODIFICATION OF TAX REGIME, ETC.

2. NEW ECONOMY PROGRAM REPRESENTS 180 DEGREE CHANGE FROM MORE CAUTIOUS CONTROL PHILOSOPHY OF PREVIOUS MIN OF ECON DR. ALFREDO GOMEZ MORALES. EMBASSY HAS NOW READ COMPLETE TEXT OF GOMEZ MORALES ECONOMIC AUSTERITY PLAN (COPY POUCH DEPT), WHICH BRILLIANTLY ASSESSES CURRENT PROBLEMS BUT OFFERS FEW SUBSTANTIVE REFORMS. ACCORDING CONTACTS, CURRENT ECONOMIC LIBERALIZATION PROGRAM MAINLY DEVELOPED BY RICARDO ZINN AND SMALL GROUP ADVISORS INCLUDING SEVERAL WHO NOT EVEN IN GOVT (ZINN IS CURRENTLY SECRETARY OF PROGRAMMING AND COORDINATION IN MIN OF ECON). CELESTINO RODRIGO HIMSELF IS KEY POLITICAL FIGURE CLOSE TO LOPEZ REGA BUT IS NOT THOUGHT TO BE MAJOR SOURCE OF ECONOMIC POLICY INSPIRATION.

3. BIG QUESTION MARK AT PRESENT TIME IS HOW FAR LIBERALIZATION STRATEGY CAN BE PUSHED. MANY SECTORS OF ECONOMY ARE INCENSED AND ALARMED OVER ECONOMIC TRENDS AND RISING INFLATION. LABOR IN PARTICULAR IS IN AN UGLY MOOD. GROWING RESISTANCE COULD FORCE GOA TO CHANGE ECONOMIC STRATEGY.

4. PRESENT AND FUTURE ECONOMIC DEVELOPMENTS WILL CONTINUE TO BE INTIMATELY RELATED TO LOPEZ REGA'S RISING POWER AND BEHIND THE SCENE POLITICAL STRUGGLES. WITH ELIMINATION GOMEZ MORALES, LOPEZ REGA HAS GREATLY EXPANDED HIS POWER IN ECONOMIC AREA BY PLACING HIS OWN MAN, CELESTINO RODRIGO, AS ECON MIN. THIS WOULD APPEAR TO LEAVE HIM IN EXCELLENT TACTICAL POSITION TO WEAKEN AND ELIMINATE IMPORTANT CGT LEADERSHIP, LAST IMPORTANT OBSTACLE IN HIS PATH TO POLITICAL DOMINANCE. MANIPULATION OF WAGE-PRICE POLICY TO THE TEMPORARY DISADVANTAGE OF LABOR MAY BE INSTRUMENT TO ACCOMPLISH THIS OBJECTIVE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: woolflhd
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BUENOS04022
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750208-0464
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750649/aaaabsqi.tel
Line Count: 96
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 BA 3860
Review Action: RELEASED, APPROVED
Review Authority: woolflhd
Review Comment: n/a
Review Content Flags:
Review Date: 03 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 SEP 2003 by BoyleJA>; APPROVED <19 DEC 2003 by woolflhd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW ECONOMIC POLICY - A PRELIMINARY ASSESSMENT
TAGS: EGEN, PINT, AR, (CELESTINO RODRIGO), (LOPEZ REGA, JOSE)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006